Why AutoCanada Stock Has Soared 135% in a Year

Description

AutoCanada (TSX:ACQ) stock has been going through a minor correction phase lately. The stock has lost nearly 9% of its value in the second half of 2021 so far after consistently rising for five quarters in a row. Despite this correction, ACQ stock is still trading with solid 135% gains in the last year as of October 5. Let's look at some key factors that could have driven these massive gains before exploring whether or not ACQ stock is still worth buying.

AutoCanada stock rally

Auto Canada is a Canadian vehicle dealership company. It offers a large variety of automotive products and services, including new and used vehicles, along with maintenance and collision-repair services. Currently, the company operates 66 franchised dealerships of some top auto industry brands in Canada and the United States. Most of its revenue still comes from its home market, though. In 2020, Canada accounted for nearly 89% of its total revenue, while the remaining came from the U.S. market.

Prior to the global pandemic phase, AutoCanada's financial growth was picking up pace. However, a sudden drop in new-vehicle demand badly hurt its financial growth trends last year. On the positive side, in the second half of 2020, a surge in old vehicle demand and high expectations of new vehicle demand recovery kept investors' confidence alive.

Its decent financial growth trend, some recent acquisitions to expand the business, and expectations of a sharp sales recovery could be three main reasons why AutoCanada stock has yielded strong triple-digit positive returns in the last year.

Is ACQ stock worth buying now?

The ongoing chip shortages are badly affecting vehicle sales and the auto industry. While this temporary issue might not affect the long-term vehicle sales outlook, it certainly could hurt AutoCanada's business growth in the near to medium term. That's the first reason why I wouldn't recommend investors to buy AutoCanada stock right now.

Investors also should note while AutoCanada's profit margins are gradually expanding, they're still very low. In the June quarter, the company reported an adjusted net profit margin of 2.8% compared to 2.1% in the previous quarter. I won't completely blame AutoCanada for its low profit margins, as we can't expect very high margins from a car dealership company. But it might not be a wise decision to invest in a company with low profitability when you have the option to invest in highly profitable Canadian companies from sectors like energy and tech. That's why its poor profitability is the second reason why don't find AutoCanada stock worth investing in right now.

Also, AutoCanada stock has already seen a massive rally in the last few quarters. In the last three years, its stock has risen by nearly 270%. In my opinion, this consistent rally has made its stock look overvalued right now — even if we take into account the company's recent growth trends and future outlook.

Foolish takeaway

I agree that AutoCanada stock's solid year-to-date gains of 92% look very impressive. However, every surging stock might not be worth buying. Instead of investing your hard-earned money in ACQ stock, you may want to buy some other cheap high-dividend stocks right now that could yield much better returns in the long term.

CATEGORY

1. Coronavirus
2. Investing

TICKERS GLOBAL

1. TSX:ACQ (AutoCanada Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. jparashar
2. kduncombe

Category

1. Coronavirus
2. Investing

Date
2025/06/30
Date Created
2021/10/06
Author
jparashar